

**MOUNT CLEMENS
COMMUNITY SCHOOL DISTRICT**

Mount Clemens, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2008**

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MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

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TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 12
Basic Financial Statements:	
District-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
General Fund	19
Statement of Fiduciary Net Assets	20
Statement of Changes in Fiduciary Net Assets	21
Notes to the Financial Statements	22 - 38
Supplementary Information	
Combining and Individual Fund Financial Statements:	
Combining Balance Sheet – Nonmajor Governmental Funds	39
Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	40
Schedule of Bonded Indebtedness	41



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INDEPENDENT AUDITORS' REPORT

November 18, 2008

Board of Education
Mount Clemens Community School District
Mount Clemens, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Mount Clemens Community School District (the "District")*, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

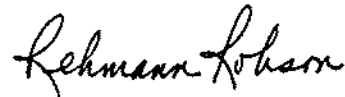
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the *Mount Clemens Community School District*, as of June 30, 2008, and the respective changes in financial position thereof and budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated November 18, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise *Mount Clemens Community School District* basic financial statements. The combining and individual fund statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

As management of Mount Clemens Community School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008.

Financial Highlights

- The District continued to invest in its future by renovating and expanding its facilities and related equipment by expending \$2,859,956 in the 2001 Capital Projects Fund.
- The District's net deficit totaled \$(1,295,651) or a decrease of \$2,012,273 due to the current economic conditions at the State level and a decrease in enrollment.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$9,864,174 a decrease of \$4,442,557 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$171,763 or less than 1% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the district-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, food service, athletics and community service. The District has no business-type activities as of and for the year ended June 30, 2008.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the district-wide financial statements. However, unlike the district-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the district-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and 2001 capital projects funds, each of which are considered to be a major fund. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. A budgetary comparison statement has been provided for the general fund herein to demonstrate compliance with that budget.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the district-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements.

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements.

District-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets by \$1,295,651 at the close of the most recent fiscal year.

A portion of the District's net assets, \$452,893, reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serve; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

District's Net Assets

	<u>2007-08</u>	<u>2006-07</u>
Current and other assets	\$ 17,409,972	\$ 19,550,117
Noncurrent assets, net	<u>71,270,931</u>	<u>71,202,510</u>
Total assets	<u>88,680,903</u>	<u>90,752,627</u>
Long-term liabilities outstanding	78,392,594	80,677,895
Other liabilities	<u>11,583,960</u>	<u>9,358,109</u>
Total liabilities	<u>89,976,554</u>	<u>90,036,004</u>
Net assets:		
Invested in capital assets, net of related debt	452,893	161,185
Restricted	595,451	1,050,906
Unrestricted	<u>(2,343,995)</u>	<u>(495,469)</u>
Total net assets	<u>\$ (1,295,651)</u>	<u>\$ 716,622</u>

An additional portion of the District's net assets, \$595,451, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net deficit* (\$2,343,995) is required to meet the government's ongoing obligations to its programs.

At the end of the current fiscal year, the District was able to report positive balances in two of three categories.

The District's net assets decreased by \$2,012,273 during the current fiscal year. This is compared to the decrease of \$969,692 in the prior year. Most of this decline over the year largely reflects the degree to which ongoing expenses exceeded ongoing revenues. This is mostly due to deteriorating economic conditions in the state and national markets along with a declining enrollment base, which caused a reduction in the District's state aid. This has been a consistent trend over that past few years.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

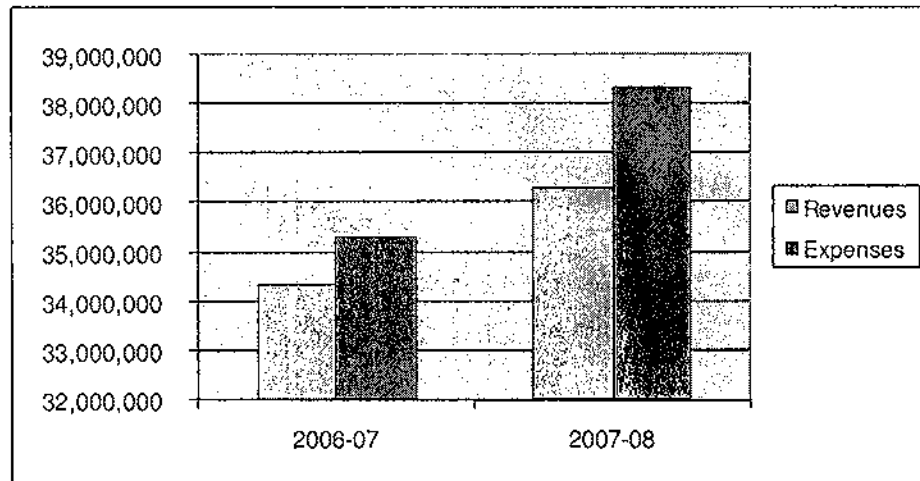
District's Changes in Net Assets

	<u>2007-08</u>	<u>2006-07</u>
Revenue:		
Program revenue:		
Charges for services	\$ 586,431	\$ 696,994
Operating grants and contributions	9,797,216	7,849,904
General revenue:		
Property taxes	10,294,028	9,724,542
State school aid	14,226,109	14,592,256
Other	1,323,379	1,457,707
Total revenue	<u>36,227,163</u>	<u>34,321,403</u>
Expenses:		
Instruction	20,645,641	18,903,879
Support services	12,036,678	10,624,359
Food services	1,189,281	1,188,945
Athletics	270,862	334,922
Community services	190,738	448,204
School services	277,421	-
Interest on long-term debt	3,628,815	3,790,786
Total expenses	<u>38,239,436</u>	<u>35,291,095</u>
Increase (decrease) in net assets	(2,012,273)	(969,692)
Net assets, beginning of year	<u>716,622</u>	<u>1,686,314</u>
Net assets, end of year	<u>\$ (1,295,651)</u>	<u>\$ 716,622</u>

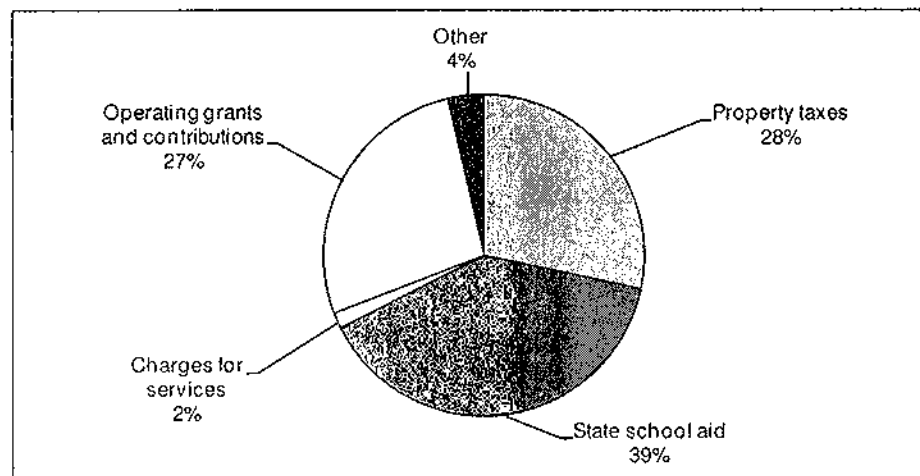
MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Total Expenses vs. Total Revenues - Governmental Activities



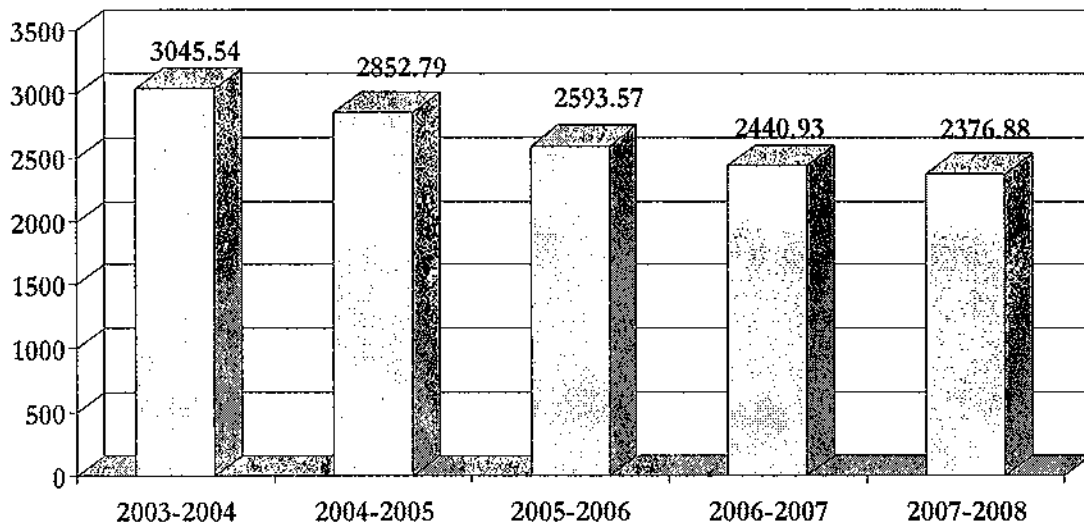
Revenues by Source - Governmental Activities



MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Trend in Enrollment – Last Five Fiscal Years



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$9,864,174, a decrease of \$4,442,557 in comparison with the prior year. Approximately 93% of this total amount, \$9,716,466 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are included in prepaids.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

The general fund is the chief operating fund of the District, and represents the bulk of the District's unreserved fund balance. At the end of the current fiscal year, unreserved fund balance of the general fund was \$171,763. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents less than 1%, or 1.5 days of total general fund expenditures.

The District's general fund balance decreased by \$1,475,070 during the current fiscal year. This is primarily attributable to unattainable revenue projections and reductions in enrollment.

The 2001 capital projects fund incurred \$2,859,956 of expenditures while in the process of making technology upgrades to Mount Clemens High School and Central Services parking lot. These expenditures helped to bring the total fund balance down to \$8,953,894 which represents the un-liquidated portion of the original bond proceeds.

General Fund Budgetary Highlights

Differences between the original and final amended budgeted revenues and expenditures amounted to a decrease of \$1,215,249 in revenues and a decrease in expenditures of \$308,693. This was primarily due to unattainable revenue projections adopted. Once additional information was known, subsequent budget amendments recognized these adjustments.

Actual to final budget variances of a \$49,248 positive variance for revenues and \$151,175 positive variance for expenditures were primarily due to additional revenue received while maintaining tight expenditure controls.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2008, amounted to \$70,632,469 (net of accumulated depreciation), which is an increase over the prior year's investment of \$70,537,266. This investment in capital assets includes land, buildings and equipment. The slight increase in the District's investment in capital assets for the current fiscal year was due mainly to the construction work being completed in the District from the 2001 Capital Project Fund offset by the disposal of modular buildings.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

The major capital asset event during the current fiscal year was the following:

- Approximately \$1,600,000 in construction payments to conclude the conversion of the former elementary building Macomb Academy to a Middle School (grades 6 to 8). Other construction work occurred at the current High School and Central Office facilities.

District's Capital Assets (net of depreciation)

	2007-08	2006-07
Land	\$ 680,575	680,575
Construction in progress	-	76,385
Land improvements	494,586	4,620,634
Building and improvements	68,454,884	64,008,023
Furniture and equipment	997,174	1,146,399
Vehicles	5,250	5,250
Total	<u>\$ 70,632,469</u>	<u>\$ 70,537,266</u>

Additional information on the District's capital assets can be found in the Notes to the Financial Statements section of this report.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$69,643,253. In addition, there is \$10,261,272 of debt that is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations, and is payable solely from state aid payments from the State of Michigan.

The District's total bonded debt decreased by \$3,175,000 or 4%, during the current fiscal year, due to principle and interest bond debt payments.

Additional information on the District's long-term debt can be found in the Notes to the Financial Statements section of this report.

Economic factors and Next Year's Budgets and Rates

The following will affect the District in the future and were considered in preparing the District's budget for the 2008-09 fiscal year:

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

- The economic downswing in Michigan continues to cause stress on the District's budget. The District's largest revenue source, the State of Michigan, has not kept pace with mandated and inflationary increases in expenditures for the coming year.
- The District's depleted fund balance will be a large factor and hurdle to future programs and services available to our students and staff.
- The other factor affecting revenue will come from the District's enrollment, which will be affected by competition from schools of choice and charter schools.
- Health insurance related benefits (i.e. medical, dental and vision) have seen significant increases over the past few years. With no full time staff contributing to the costs of these benefits, such increases severely threaten the District's financial position.
- The School District is mandated by Michigan State statute to contribute to the Michigan Public School Employees Retirement System (MPERS) at a rate established by the State of Michigan. The rate set for 2008-09 was reduced to 16.54% of our annual covered payroll (2007-08 it was 16.72%). It is management's belief that future contribution rates will continue to increase 1-4% annually, despite the roll backs for the past two school years.

The above listed items encompass the major challenges for the 2008-09 fiscal year that will undoubtedly feature rising expenses with sluggish revenues. Such a combination will mean the District will be evaluating all areas in order to avoid a deficit ending fund balance.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Financial Services, 167 Cass Avenue, Mount Clemens, Michigan 48043.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2008

ASSETS	Governmental Activities
Current assets	
Cash and cash equivalents	\$ 12,798,468
Receivables	4,463,796
Prepays and other	147,708
Total current assets	17,409,972
Non-current assets	
Capital assets not being depreciated	680,575
Capital assets being depreciated	90,598,456
Accumulated depreciation	(20,646,562)
Net capital assets	70,632,469
Unamortized bond issuance costs	638,462
Total noncurrent assets	71,270,931
Total assets	88,680,903
LIABILITIES	
Current liabilities	
Accounts payable	1,242,472
Accrued payroll and other liabilities	2,287,309
Unearned revenue	15,137
Notes payable	4,000,880
Current portion of long-term obligations	4,038,162
Total current liabilities	11,583,960
Noncurrent liabilities	
Noncurrent portion of long-term obligations	78,392,594
Total liabilities	89,976,554
Net assets	
Invested in capital assets, net of related debt	452,893
Restricted for	
Debt service	595,451
Unrestricted deficit	(2,343,995)
Total net assets (deficit)	\$ (1,295,651)

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2008

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 20,645,641	\$ 109,944	\$ 7,290,305	\$ (13,245,392)
Support services	12,036,678	95,836	105,928	(11,834,914)
Community services	190,738	19,137	1,317,906	1,146,305
Food services	1,189,281	248,272	968,448	27,439
Athletics	270,862	10,172	-	(260,690)
School services	277,421	103,070	114,629	(59,722)
Interest on long-term debt	3,628,815	-	-	(3,628,815)
Total governmental activities	\$ 38,239,436	\$ 586,431	\$ 9,797,216	(27,855,789)
General revenues:				
Property taxes, levied for general purposes				4,944,545
Property taxes, levied for debt service				5,349,483
Unrestricted state school aid				14,226,109
Other revenues				784,353
Unrestricted investment earnings				539,026
Total general revenues				25,843,516
Change in net assets				(2,012,273)
Net assets, beginning of year				716,622
Net assets (deficit), end of year				\$ (1,295,651)

FUND FINANCIAL STATEMENTS

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS

June 30, 2008

	General Fund	2001 Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Assets				
Cash and cash equivalents	\$ 3,065,835	\$ 9,104,908	\$ 627,725	\$ 12,798,468
Taxes receivable	-	-	357,288	357,288
Accounts receivable	207	-	-	207
Due from other funds	192,763	-	112,112	304,875
Due from other governmental units	4,106,301	-	-	4,106,301
Inventories	-	-	19,793	19,793
Prepays	36,220	-	91,695	127,915
Total assets	<u>\$ 7,401,326</u>	<u>\$ 9,104,908</u>	<u>\$ 1,208,613</u>	<u>\$ 17,714,847</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 622,591	\$ 140,446	\$ 205,216	\$ 968,253
Salaries payable	1,828,366	-	6,793	1,835,159
Accrued expenses	452,150	-	-	452,150
Due to other funds	-	10,568	294,307	304,875
Due to other governmental units	274,219	-	-	274,219
Deferred revenue	15,137	-	-	15,137
Loans payable	4,000,880	-	-	4,000,880
Total liabilities	<u>7,193,343</u>	<u>151,014</u>	<u>506,316</u>	<u>7,850,673</u>
Fund balances				
Reserved for inventories and prepaids	36,220	-	111,488	147,708
Unreserved, designated for capital projects	-	8,953,894	4,365	8,958,259
Unreserved, undesignated	171,763	-	-	171,763
Unreserved, undesignated, reported in nonmajor:				
Special revenue funds (deficit)	-	-	(9,007)	(9,007)
Debt service funds	-	-	595,451	595,451
Total fund balances	<u>207,983</u>	<u>8,953,894</u>	<u>702,297</u>	<u>9,864,174</u>
Total liabilities and fund balances	<u>\$ 7,401,326</u>	<u>\$ 9,104,908</u>	<u>\$ 1,208,613</u>	<u>\$ 17,714,847</u>

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2008

Fund balances - total governmental funds	\$ 9,864,174
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	91,279,031
Deduct: accumulated depreciation	(20,646,562)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds. In addition, funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred on the statement of net assets and amortized.

Deduct: bonds payable	(79,133,470)
Add: unamortized bond issuance costs	638,462
Deduct: accrued interest on bonds payable	(3,170,447)
Deduct: accrued insurance claims and judgments	(101,324)
Deduct: compensated absences	(25,515)

Net assets of governmental activities	<u>\$ (1,295,651)</u>
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MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds

For the Year Ended June 30, 2008

	General Fund	2001 Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 7,289,143	\$ 422,743	\$ 5,900,853	\$ 13,612,739
State sources	17,475,331	-	91,935	17,567,266
Federal sources	2,739,110	-	2,308,048	5,047,158
Total revenues	27,503,584	422,743	8,300,836	36,227,163
Expenditures				
Instruction	17,549,884	-	-	17,549,884
Support service	11,019,751	-	-	11,019,751
Food service	-	-	1,189,281	1,189,281
Athletics	-	-	270,862	270,862
Community service	190,738	-	277,421	468,159
Debt service				
Principal	-	-	3,175,000	3,175,000
Interest	-	-	3,344,040	3,344,040
Capital outlay and repairs	-	2,859,956	1,340,776	4,200,732
Total expenditures	28,760,373	2,859,956	9,597,380	41,217,709
Revenues under expenditures	(1,256,789)	(2,437,213)	(1,296,544)	(4,990,546)
Other financing sources (uses)				
Note/bond proceeds	-	-	547,989	547,989
Transfers in	27,570	-	403,340	430,910
Transfers out	(245,851)	-	(185,059)	(430,910)
Total other financing sources (uses)	(218,281)	-	766,270	547,989
Net change in fund balances	(1,475,070)	(2,437,213)	(530,274)	(4,442,557)
Fund balance, beginning of year	1,683,053	11,391,107	1,232,571	14,306,731
Fund balance, end of year	\$ 207,983	\$ 8,953,894	\$ 702,297	\$ 9,864,174

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$ (4,442,557)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	3,783,650
Deduct - depreciation expense	(2,669,812)
Deduct - basis in disposed capital assets	(1,018,637)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In addition, funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized on the statement of activities.

Add: principal payments on long-term liabilities	3,175,000
Deduct: proceeds received on bond issuance	(547,989)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in accrued compensated absences	660
Deduct: amortization on bond costs and premiums	(26,782)
Deduct: increase in accrued interest payable on bonds	(257,991)
Deduct: increase in insurance liability	(7,815)

Change in net assets of governmental activities	<u>\$ (2,012,273)</u>
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MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual General Fund

For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local sources				
Property taxes	\$ 4,769,993	\$ 4,946,636	\$ 4,944,545	\$ (2,091)
Special education tax - MISD	1,400,000	1,138,164	1,407,901	269,737
Other local sources	655,426	992,552	936,697	(55,855)
State sources				
Foundation allowance	12,809,200	14,115,384	14,226,109	110,725
Other state sources	5,057,562	3,248,636	3,249,222	586
Federal sources	3,977,404	3,012,964	2,739,110	(273,854)
Total revenues	28,669,585	27,454,336	27,503,584	49,248
Expenditures				
Instruction				
Basic programs	10,936,455	11,620,491	11,715,757	(95,266)
Added needs	6,041,877	5,835,740	5,834,127	1,613
Total instruction	16,978,332	17,456,231	17,549,884	(93,653)
Support services				
Pupil	2,505,702	2,327,107	2,378,023	(50,916)
Instructional support	1,274,899	1,484,062	1,383,387	100,675
General administration	696,792	639,217	643,101	(3,884)
School administration	1,476,905	1,571,467	1,581,912	(10,445)
Business	483,147	426,542	404,684	21,858
Maintenance	2,875,881	3,040,308	2,973,439	66,869
Transportation	732,705	876,534	877,911	(1,377)
Central services	583,789	816,942	777,294	39,648
Total support services	10,629,820	11,182,179	11,019,751	162,428
Community service	1,612,089	273,138	190,738	82,400
Total expenditures	29,220,241	28,911,548	28,760,373	151,175
Revenues over (under) expenditures	(550,656)	(1,457,212)	(1,256,789)	200,423
Other financing (uses)				
Transfers in	-	24,570	27,570	3,000
Transfers out	(250,290)	(250,392)	(245,851)	4,541
Total other financing sources (uses)	(250,290)	(225,822)	(218,281)	7,541
Net change in fund balances	(800,946)	(1,683,034)	(1,475,070)	207,964
Fund balance, beginning of year	1,683,053	1,683,053	1,683,053	-
Fund balance, end of year	\$ 882,107	\$ 19	\$ 207,983	\$ 207,964

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Cash and cash equivalents	\$ 230,316	\$ 77,172
Investments	95,611	-
Accounts receivable	-	-
	<hr/>	<hr/>
Total assets	<u>325,927</u>	<u>\$ 77,172</u>
 Liabilities		
Accounts payable	-	207
Due to student groups	-	76,965
	<hr/>	<hr/>
Total liabilities	<u>-</u>	<u>\$ 77,172</u>
 Net assets - reserved for scholarships	<u>\$ 325,927</u>	

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Statement of Changes in Net Fiduciary Assets

For the Year Ended June 30, 2008

	Private Purpose Trust
Additions	
Loss on investments	<u>\$ (34,920)</u>
Total additions	(34,920)
Deductions	
Scholarships awarded	<u>13,906</u>
Net change in net assets	(48,826)
Net assets - beginning of year	<u>374,753</u>
Net assets - end of year	<u><u>\$ 325,927</u></u>

NOTES TO THE FINANCIAL STATEMENTS

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Mount Clemens Community School District (the "District") has followed the guidelines of the Governmental Accounting Standards Board's Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the fiscal year ended June 30, 2008.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary trust fund financial statements. Agency funds also use the accrual basis of accounting, but do not have a measurement focus. Revenues are recorded when earned and expenses are

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for expenditure driven grants, which are considered available if collected within one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The 2001 capital projects fund accounts for the construction, as well as the acquisition, of capital assets and the renovation of certain other District facilities. These projects are funded by a general obligation unlimited tax bond issue.

Additionally, the District reports the following fund types:

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The District's special revenue funds include the food service, athletic, cable TV and Cairns Community Center. Operating deficit generated by athletics activities is the responsibility of the general fund.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

The debt service funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The fiduciary funds consist of assets held by the District in a trustee capacity or as an agent on behalf of others. The District has two fiduciary funds, which include the private-purpose trust and the student activities agency fund. The private-purpose trust includes contributions received by the District to be awarded in the form of scholarships. The student activities agency fund is used to account for transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the government-wide financial statements.

D. Assets, Liabilities and Equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Statutory authority

Michigan law authorizes the District to deposit and invest in:

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the Surplus Funds Investment Pool Act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy is equivalent to the above State of Michigan policy.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20-25
Buildings	50
Furniture and equipment	5-20
Licensed vehicles	8

5. Compensated absences

The liability for compensated absences reported in the district-wide statements consists of earned but unused accrued vacation. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, with amounts for both employees who are currently eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments upon termination.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

6. Long-term obligations

In the government wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts received in debt issuances are reported as other financing sources and/or uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

7. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

B. Excess of Expenditures over Appropriations

The District had expenditure budget overruns during the fiscal year at the legal budget control level in the general fund as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Instruction:			
Basic programs	\$11,620,491	\$11,725,321	\$(104,830)
Added needs	5,835,740	5,856,557	(20,817)
Support services:			
Pupil	2,327,107	2,383,895	(56,788)
General Administration	639,217	643,101	(3,884)
School Administration	1,571,467	1,581,912	(10,445)
Transportation	876,534	877,911	(1,377)

C. Bonded Construction Costs

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

	<u>Deposits</u>	<u>Investment</u>	<u>Other</u>	<u>Total</u>
Statement of net assets:				
Cash & cash equivalents	\$3,858,401	\$ 8,939,467	\$ 600	\$12,798,468
Fiduciary funds				
Cash & cash equivalents	307,488	-	-	307,488
Investments	-	95,611	-	95,611
	<u>\$4,165,889</u>	<u>\$ 9,035,078</u>	<u>\$ 600</u>	<u>\$13,201,567</u>

The District chooses to disclose its investments by specifically identifying each. As of year-end, the District had the following investments.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
Michigan Liquid Asset Fund	N/A	\$ 8,739,347	S&P AAA
Money Market	N/A	200,120	N/A
American Funds	N/A	76,054	Unrated
Various stocks	N/A	<u>19,557</u>	N/A
		<u>\$ 9,035,078</u>	

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year end, as applicable.

Credit Risk. State law limits investments to specific investment types as identified in the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end, as applicable.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, \$6,359,509 of the District's bank balance of \$6,576,509 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require, and the District does not have, a policy for investment custodial credit risk. The District's investments of \$9,035,078 had a custodial credit risk exposure of \$9,035,078 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in note 1 of the summary of significant

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

accounting policies. The District investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5 percent of the District's investments are in the Michigan Liquid Assets Fund, Fifth Third Bank and Community Central Bank. All investments held at year-end are reported above.

B. Receivables

Receivables in the governmental activities are 92 percent due from other governments and 8 percent from other receivables.

C. Interfund Receivables, Payables and Transfers

Interfund receivable and payable balances as of the year ended June 30, 2008 were as follows:

	Due to Other Funds		
	2001 Capital Project Fund	Nonmajor Governmental Funds	Total
Due from other funds			
General fund	\$ 10,568	\$ 182,195	\$ 192,763
Nonmajor Governmental Funds	-	112,112	112,112
Total	<u>\$ 10,568</u>	<u>\$ 294,307</u>	<u>\$ 304,875</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur and (2) payments between funds are made.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Transfers between funds for the year ended June 30, 2008, were as follows:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Transfers from Other Funds			
General fund	\$ -	\$ 27,570	\$ 27,570
Nonmajor Governmental Funds	<u>245,851</u>	<u>157,489</u>	<u>403,340</u>
Total	<u>\$ 245,851</u>	<u>\$ 185,059</u>	<u>\$ 430,910</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

D. Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Assets not being depreciated					
Land	\$ 680,575	\$ -	\$ -	\$ -	\$ 680,575
Construction in progress	76,385	-	-	(76,385)	-
Subtotal of capital assets not being depreciated	756,960	-	-	(76,385)	680,575
Capital assets being depreciated:					
Land improvements	887,513	164,192	-	-	1,051,705
Buildings and improvements	79,273,673	3,579,377	(1,256,904)	76,385	81,672,531
Furniture and equipment	7,781,639	40,081	-	-	7,821,720
Vehicles	52,500	-	-	-	52,500
Subtotal capital assets being depreciated	87,995,325	3,783,650	(1,256,904)	76,385	90,598,456
Less accumulated depreciation for:					
Land improvements	307,036	250,082	-	-	557,118
Buildings and improvements	11,225,491	2,230,424	(238,268)	-	13,217,647
Furniture and equipment	6,635,241	189,306	-	-	6,824,547
Vehicles	47,250	-	-	-	47,250
Subtotal accumulated depreciation	18,215,018	2,669,812	(238,268)	-	20,646,562
Net capital assets being depreciated	69,780,307	1,113,838	(1,018,636)	76,385	69,951,894
Net capital assets	\$ 70,537,267	\$ 1,113,838	\$ (1,018,636)	\$ -	\$ 70,632,469

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

<u>Functions</u>	<u>Amount</u>
Instruction	<u>\$2,669,812</u>

E. Operating Leases

The District leases equipment under noncancelable operating leases. Total costs for such leases were approximately \$53,395 for the current year. The future minimum lease payments for these leases are as follows:

<u>Year Ending</u> <u>June 30</u>	
2009	\$ 53,395
2010	<u>53,395</u>
Total	<u>\$ 160,185</u>

F. Long-term Debt

The following is a summary of the bond, compensated absence, and other long-term obligation related transactions of the District for the year ended June 30, 2008:

	<u>Balance at</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>June 30, 2008</u>	<u>Due Within</u> <u>One Year</u>
General obligation bonds	\$ 72,818,253	\$ -	\$ (3,175,000)	\$ 69,643,253	\$ 3,135,000
Unamortized premium	905,669	-	(128,131)	777,538	103,234
Deferred loss on refunding	(1,665,519)	-	116,926	(1,548,593)	(132,610)
State of MI school bond	9,713,283	547,989	-	10,261,272	-
Accreted interest on capital appreciated bonds	2,111,886	227,347	-	2,339,233	-
Accrued interest	789,364	831,214	(789,364)	831,214	831,214
Self insurance liability	93,509	413,109	(405,294)	101,324	101,324
Compensated absences	26,175	25,515	(26,175)	25,515	-
Total	<u>\$ 84,792,620</u>	<u>\$ 2,045,174</u>	<u>\$ (4,407,038)</u>	<u>\$ 82,430,756</u>	<u>\$ 4,038,162</u>

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

The self insurance liability and compensated absences are generally liquidated by the general fund.

Bonds payable at June 30, 2008, are comprised of the following issues:

General Obligation Bonds:

1993 Refunding Bonds - \$1,733,253 capital appreciation bonds, installments of \$296,958 to \$400,276 due May 1, 2013 through May 1, 2017, interest at 5.8% to 5.85%	\$ 1,733,253
2001 School Building and Site Bonds - \$35,085,000 serial bonds due in annual installments of \$1,700,000 to \$2,700,000 through May 1, 2011, interest at 3.75% to 5.50%. \$35,075,000 term bonds due in annual installments of \$2,675,000 to \$2,700,000 from May 1, 2019 through May 1, 2031, interest at 5.00%	6,225,000
2004 Refunding Bonds - \$5,045,000 serial bonds due in annual installments of \$950,000 to \$1,090,000 from May 1, 2008 through May 1, 2012, interest at 2.50% to 4.00%. \$3,000,000 serial bonds due in annual installments of \$1,000,000 from May 1, 2018 through May 1, 2020, interest at 3.90% to 4.00%.	7,095,000
2006 Unlimited Tax General Obligation Refunding Bonds - \$17,915,000 serial bonds due in annual installments of \$45,000 to \$2,660,000 from May 1, 2007 through May 1, 2018, interest at 3.00% to 5.00%.	17,770,000
2007 Unlimited Tax General Obligation Refunding Bonds - \$37,065,000 serial bonds due in annual installments of \$105,000 to \$2,835,000 from May 1, 2008 through May 1, 2031, interest at 4.00 to 5.00%.	<u>36,820,000</u>
	<u>\$ 69,643,253</u>

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Fiscal Year</u>	<u>Principle Due</u>	<u>Interest Due</u>	<u>Total</u>
2009	\$ 3,135,000	\$ 2,952,669	\$ 6,087,669
2010	3,250,000	2,839,619	6,089,619
2011	3,370,000	2,719,863	6,089,863
2012	3,505,000	2,585,238	6,090,238
2013-2017	15,008,253	15,111,686	30,119,939
2018-2022	17,075,000	7,233,638	24,308,638
2023-2027	13,675,000	4,090,581	17,765,581
2028-2031	10,625,000	1,158,062	11,783,062
	<u>\$ 69,643,253</u>	<u>\$ 38,691,356</u>	<u>\$ 108,334,609</u>

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the Debt Service requirements on the general obligation bonds. Borrowings by the School District from the School Bond Loan Fund increased \$547,989, including \$420,835 of interest added to the corpus of the debt, totaling \$10,261,272 and accrued interest, not yet added to the corpus of the debt totaled \$339,103 for the year ended June 30, 2008.

G. Notes Payable

The District issued a State Aid tax anticipation note in February 2008 in the amount of \$4,000,000 for additional cash flow purposes. The note is payable in a lump sum on August 20, 2008 plus interest of 2.45% which was subsequently paid.

H. Commitments and Contingencies

Food Service Contracts – The District has a contract for management of its food service operations, renewable annually. The total contract cost for the year ended June 30, 2008 was approximately \$506,000. The contract includes a minimum administrative fee of approximately \$20,000 and a management fee of approximately \$15,000 per year.

Pupil Transportation – The District has contracted for pupil transportation services through June 30, 2008. The total contract cost for pupil transportation services for the

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

year ended June 30, 2008 was approximately \$878,000. The District subsequently renegotiated the contract for the fiscal year ending June 30, 2009 at a base cost of \$554,925 plus fuel costs currently estimated at \$70,697.

Federal and State Grants - Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

Construction Contract Commitments - The District is obligated for construction contracts relating to building projects in the amount of \$1.2 million at June 30, 2008. These commitments are not susceptible to accrual. Accordingly, no liabilities have been recorded in the financial statements.

IV. OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for torts, errors, and omissions claims; the District is self insured for non-teacher healthcare, dental, and vision claims. The District participates in the Middle Cities Risk Management Trust (risk pool) for claims relating to property and casualty, the Middle Cities Workers Compensation Fund for workers' compensation, and M.E.S.S.A. for teacher's health care. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. The District estimates the liability for non-teacher health, dental, and vision claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not been reported. These estimates are recorded in the district-wide statements.

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Changes in the balances of claims liabilities during the past three years are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Accrued claims, beginning of year	\$ 93,509	\$ 93,000	\$ 86,000
Incurred claims	413,109	374,544	371,706
Claim payments	<u>(405,294)</u>	<u>(374,035)</u>	<u>(364,706)</u>
Accrued claims, end of year	<u>\$ 101,324</u>	<u>\$ 93,509</u>	<u>\$ 93,000</u>

B. Property Taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied by the City of Mount Clemens and Clinton Township on July 1, of each fiscal year. All levies become delinquent on February 14. The Delinquent Tax Revolving Funds of Macomb County advance delinquent real taxes to the District.

C. Defined Benefit Pension Plan

Plan Description

The Mount Clemens Community School District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Mount Clemens Community School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.72% of annual covered payroll. The contribution requirements of plan members and the Mount Clemens Community School District are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2008, 2007 and 2006 were \$2,667,312, \$2,820,652 and 2,341,000, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance included as part of the District's total monthly contribution to the pension plan discussed above.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

* * * * *

SUPPLEMENTARY INFORMATION

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2008

	Special Revenue			Capital Projects
	Food Services	Athletics	School Services	Community Center
ASSETS				
Assets				
Cash and investments	\$ 12,183	\$ 9,409	\$ -	\$ -
Accounts receivable	59,247	-	42,856	255,185
Due from other funds	-	-	-	-
Inventories	19,793	-	-	-
Prepays	90,000	-	1,695	-
Total assets	\$ 181,223	\$ 9,409	\$ 44,551	\$ 255,185
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 89,020	\$ 2,616	\$ 14,933	\$ 98,647
Salaries payable	-	6,793	-	-
Due to other funds	-	-	19,340	152,173
Total liabilities	89,020	9,409	34,273	250,820
Fund balances				
Reserved for prepaids and inventories	109,793	-	1,695	-
Unreserved designated for capital projects	-	-	-	4,365
Unreserved and undesignated (deficit)	(17,590)	-	8,583	-
Total fund balances	92,203	-	10,278	4,365
Total liabilities and fund balances	\$ 181,223	\$ 9,409	\$ 44,551	\$ 255,185

Debt Service						Total Nonmajor Governmental Funds
1992 Issue	1993 Refunding	2001 Issue	2004 Refunding	2005 Refunding	2007 Refunding	
\$ -	\$ -	\$ 234,099	\$ 122,204	\$ 143,407	\$ 106,423	\$ 627,725
-	-	-	-	-	-	357,288
-	-	-	-	-	112,112	112,112
-	-	-	-	-	-	19,793
-	-	-	-	-	-	91,695
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 234,099</u>	<u>\$ 122,204</u>	<u>\$ 143,407</u>	<u>\$ 218,535</u>	<u>\$ 1,208,613</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 205,216
-	-	-	-	-	-	6,793
-	-	49,544	39,956	33,294	-	294,307
-	-	<u>49,544</u>	<u>39,956</u>	<u>33,294</u>	-	<u>506,316</u>
-	-	-	-	-	-	111,488
-	-	-	-	-	-	4,365
-	-	184,555	82,248	110,113	218,535	586,444
-	-	<u>184,555</u>	<u>82,248</u>	<u>110,113</u>	<u>218,535</u>	<u>702,297</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 234,099</u>	<u>\$ 122,204</u>	<u>\$ 143,407</u>	<u>\$ 218,535</u>	<u>\$ 1,208,613</u>

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balance Nonmajor Governmental Funds

For the Year Ended June 30, 2008

	Special Revenue			Capital Projects
	Food Services	Athletics	School Services	Community Center
Revenues				
Local sources				
Property taxes	\$ -	\$ -	\$ -	\$ -
Food sales	248,272	-	-	-
Other local sources	4	10,172	104,070	27,235
State sources	91,935	-	-	-
Federal sources	876,513	-	113,629	1,317,906
Total revenues	1,216,724	10,172	217,699	1,345,141
Expenditures				
Food services	1,189,281	-	-	-
Athletics	-	270,862	-	-
Cable television	-	-	166,952	-
Cairns Community Center	-	-	110,469	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Capital outlay and repairs	-	-	-	1,340,776
Total expenditures	1,189,281	270,862	277,421	1,340,776
Revenue over (under) expenditures	27,443	(260,690)	(59,722)	4,365
Other financing sources				
Bond proceeds	-	-	-	-
Payments to refunding agent	-	-	-	-
Transfers in	-	175,851	70,000	-
Transfers out	(27,570)	-	-	-
Total other financing sources	(27,570)	175,851	70,000	-
Net change in fund balances	(127)	(84,839)	10,278	4,365
Fund balance, beginning of year	92,330	84,839	-	-
Fund balance, end of year	\$ 92,203	\$ -	\$ 10,278	\$ 4,365

Debt Service		Debt Service				Total Nonmajor Governmental Funds
1992 Issue	1993 Refunding	2001 Issue	2004 Refunding	2005 Refunding	2007 Refunding	
\$ -	\$ -	\$ 1,425,164	\$ 1,236,133	\$ 959,672	\$ 1,728,514	\$ 5,349,483
-	-	-	-	-	-	248,272
-	1	119,348	22,902	19,366	-	303,098
-	-	-	-	-	-	91,935
-	-	-	-	-	-	2,308,048
-	1	1,544,512	1,259,035	979,038	1,728,514	8,300,836
-	-	-	-	-	-	1,189,281
-	-	-	-	-	-	270,862
-	-	-	-	-	-	166,952
-	-	-	-	-	-	110,469
-	-	1,925,000	950,000	55,000	245,000	3,175,000
-	-	744,238	287,283	890,051	1,422,468	3,344,040
-	-	-	-	-	-	1,340,776
-	-	2,669,238	1,237,283	945,051	1,667,468	9,597,380
-	1	(1,124,726)	21,752	33,987	61,046	(1,296,544)
-	-	547,989	-	-	-	547,989
-	-	-	-	-	-	-
-	-	-	-	-	157,489	403,340
(151,733)	(5,756)	-	-	-	-	(185,059)
(151,733)	(5,756)	547,989	-	-	157,489	766,270
(151,733)	(5,755)	(576,737)	21,752	33,987	218,535	(530,274)
151,733	5,755	761,292	60,496	76,126	-	1,232,571
\$ -	\$ -	\$ 184,555	\$ 82,248	\$ 110,113	\$ 218,535	\$ 702,297

MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balance Nonmajor Governmental Funds

For the Year Ended June 30, 2008

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	Food Services	Athletics	School Services	Community Center
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Cable television	-	-	166,952	-
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Principal	-	-	-	-
Interest and other	-	-	-	-
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-	-	547,989	-	-	-	547,989
-	-	-	-	-	-	-
-	-	-	-	-	157,489	403,340
(151,733)	(5,756)	-	-	-	-	(185,059)
(151,733)	(5,756)	547,989	-	-	157,489	766,270
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151,733	5,755	761,292	60,496	76,126	-	1,232,571
\$ -	\$ -	\$ 184,555	\$ 82,248	\$ 110,113	\$ 218,535	\$ 702,297



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

November 18, 2008

To the Board of Education
Mount Clemens Community School District
Mount Clemens, Michigan

We have audited the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the *Mount Clemens Schools* (the "District") for the year ended June 30, 2008, and have issued our report thereon dated November 18, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated September 18, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the *District's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the *District's* compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the *District's*

compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the *District's* compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the *District* are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 18, 2008.

Management Consultations with Other Independent Accountants

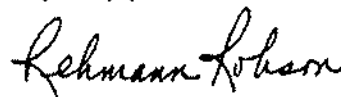
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of the *Mount Clemens Community School District* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Lehmann Johnson", is written in dark ink.

Mount Clemens Schools
Comments and Recommendations
For the Year Ended June 30, 2008

In planning and performing our audit of the financial statements of the Mount Clemens Community School District as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the District's Single Audit report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Other Matters

1.) Eligibility – Child Nutrition Program

During our audit procedures we noted that the District relies on a third party food service provider to monitor eligibility requirements for the Child Nutrition Program. The food service provider uses an automated system to determine eligibility. The Michigan School Auditing Manual, compliance supplement over the Child Nutrition Cluster, Section III, Paragraph C, requires the District to monitor and determine eligibility. In our review of internal controls over the Child Nutrition Program we did not note a point where the District is actively involved in monitoring eligible participants.

Mount Clemens Schools
Comments and Recommendations
For the Year Ended June 30, 2008

Recommendation:

We would recommend that the District evaluate the internal controls over eligibility requirements for the Child Nutrition Program and develop steps performed by District employees to monitor eligible participants.

2.) *Bank Reconciliations/Cash Deposits – Child Nutrition Program*

During our review of internal controls over the Child Nutrition Program, we noted instances of a variance between cash collected from the point of sale system's sales report and the actual cash deposited per the bank statement (over/short situations). As part of our follow-up we noted that reconciliations between the sales reports and cash deposited did not appear to be completed on a timely basis. In addition, there does not appear to be a control in place to determine which cashier and the amount that was over or short.

Recommendation:

We would recommend that the District review the internal controls over cash receipts for the Child Nutrition Program and develop a system of reconciling individual cashier sales reports to the amount deposited to the bank.

* * * * *